


Date: March 24, 2008

To: Audit & Finance Committee

cc: Debbi Dollar, Assistant City Manager
Bryan Raines, Deputy City Manager
Jenny Sheppard, Financial Services Operations Director
Tim Meyer, Business License & Revenue Collections Administrator

From: Gary Ray, City Auditor 

Subject: Final Report – Audit of Revenue Collections Operations

Enclosed is our final report and five corrective action plans (CAPs) for the recently completed audit of the Revenue Collections Operations Division Cash Handling Procedures. Management's response, which is attached to the report, indicates that all of our recommendations were accepted and that implementation efforts are ongoing. We would like to thank the Revenue Collections Operations Division staff members for their assistance and cooperation throughout the audit. If you have any questions about this report, please contact me at extension 3210 or Jennifer Ruttman at extension 3767.

Audit Report

Department: Financial Services
Division: Revenue Collections Operations

Audit Subject: Cash Handling Procedures

Date Completed: January 31, 2008
Report Date: February 19, 2008
Audit Period: Calendar Year 2007

Purpose: The primary objective of this audit was to review all cash handling and fee collection activities in order to:

- 1) Determine whether controls are in place and operating effectively to provide reasonable assurance that assets are safeguarded, transactions are processed completely and accurately, and risks are minimized; and
- 2) Make recommendations for enhanced controls or other improvements.

Scope: To accomplish this audit we:

- 1) Reviewed internal controls related to cash handling.
- 2) Reviewed all relevant written policies procedures.
- 3) Observed the daily operations of the two Business Offices, the Credit Services Section and the Unattended Payments Center.

Comments:

- Division supervisors have developed written policies, procedures and work instructions, in order to document controls, safeguard assets and ensure business continuity. Although we are recommending some improvements, it should be noted that we found these policies and procedures to be quite comprehensive.
- We observed many line-level staff members who were remarkably conscientious and diligent in their efforts to provide high quality customer service. These qualities contribute positively to the overall control environment.
- We recommend that the City Manager review Management Policy #204 and consider eliminating the provision that allows employees to cash personal checks. This provision may no longer be necessary, due to the increased availability and convenience of ATM machines.

Conclusion: Overall, we found that controls are in place and operating effectively to provide reasonable assurance that assets are safeguarded, transactions are processed completely and accurately, and risks are minimized. However, improvements are recommended, primarily in the areas of oversight and physical security. Please see the attached Corrective Action Plans (CAPs) for detailed findings and recommendations.

Corrective Action Plan #1

Audit Subject: Revenue Collections Cash Handling Procedures

February 19, 2008

Title:	Change Fund Controls
Observations:	<ol style="list-style-type: none">1) The Change Fund policy refers to (and is applied to) only a portion of the actual change funds as recorded in the City's General Ledger.2) The Change Fund policy does not require that change fund audits be performed only by a supervisor.3) At the EMSC Business Office, audits of the change fund are performed by line-level staff and are not performed at the required frequency.4) Employees do not always make entries in the Change Fund Log when accessing the Change Fund.
Discussion:	<ol style="list-style-type: none">1) The Change Fund policy states: <i>"Revenue Collections will maintain two change funds. The Business Office at 55 N. Center St. change fund will contain \$4,000.00 and East Mesa Service Center (EMSC) at 6935 E. Decatur St. will contain \$2,000.00 in miscellaneous denominations. The change funds are to be used to supply Customer Service Representatives (CSR) with a variety of change needed to manage their cash drawers."</i> The City's General Ledger account #11415, "City Hall Cashiers Change Fund", maintains a balance of \$8,800, and account #11420, "East Mesa Service Center", maintains a balance of \$3,200. These change funds are inclusive of all cash maintained by the 2 Business Offices for the purpose of making change for customers. The Change Fund policy, as currently written and applied, requires only a portion of the actual change fund to be audited at least once every two weeks. A different policy, "Random Drawer Audits," applies to the remainder of the funds; however, that policy has more to do with the consequences of discrepancies and cash outages, rather than specifying the actual audit requirements.2) The Change Fund policy states: <i>"A random audit will be performed by a Specialist or Supervisor at least once but may be up to ten times during a two-week period. An assigned CSR or Supervisor will count and verify the change fund in the Business Office and EMSC. The total should include all monies and receipts for change orders equaling total for locations. The CSR/Supervisor will fill out a balance sheet and file in the vault. The CSR at EMSC will fax the balance sheet to the Supervisor downtown."</i> Since there is no supervisor at the EMSC, the change fund is counted by a CSR. A random audit is neither "random" nor an "audit" if it is performed by the primary user of the fund in question. The purpose of these audits is to deter and/or detect errors or fraud on the part of cashiers. It is unlikely that a CSR who is actually responsible for an error or fraud would report a discrepancy. Therefore, the same employees who utilize the fund should not perform change fund audits.

3) The "Change Fund" policy states:

"If a CSR needs change during the business day, they must initial log in vault with one witness who also initials verifying correct change given back. (EMSC only has 2 staff members, so at this location only one will initial log as other staff member must remain at counter.)"

The "EMSC Change Fund Log" indicates that between 10/19/2007 and 10/24/2007 the Fund was accessed only once, on 10/22/2007, when \$100 was exchanged. However, a comparison of the two cash counts shows that a minimum of \$171.00 was exchanged. Therefore, it is likely that the Change Fund was accessed one or more additional times that were not recorded in the Log. Analysis of 5 previous counts and the corresponding Log entries between 8/8/2007 and 10/19/2007 showed similar discrepancies. The same type of analysis was done on the City Hall Change Fund Log, and also showed similar discrepancies.

Risks:

- 1) Having no written policy accounting for the entire change fund balance increases the risk that adequate, effective controls will not be implemented to protect the entire fund; thereby increasing the risk that errors or fraud may not be detected in a timely manner.
- 2) The current procedure could provide an opportunity for a cashier to conceal errors or fraudulent activity. It may also provide management with a false sense of security by creating the illusion that effective internal controls are in place, when in fact they are not. This increases the risk that errors or fraud could occur without timely detection.
- 3) The lack of an accurate Log increases the risk that errors or fraud may occur without detection. If a discrepancy in the Change Fund were to be discovered, it would be difficult to determine the cause without a complete and accurate Log.

Recommendations:

- 1) The Change Fund policy should reference and apply to each change fund in its entirety and should specify how those funds are distributed and utilized. If necessary for maximum efficiency and effectiveness, the policy could specify different requirements for audits or other control activities as applicable to only a specified subset of the fund (i.e., requirements for audits of assigned cash drawers could differ from requirements for the other funds). However, the policy should include adequate, effective controls to safeguard the entire fund.
- 2) All audits of change funds, including those at EMSC, should be:
 - a. Performed by a supervisor.
 - b. Unannounced; at or above a minimum frequency; at random intervals (i.e. at least 2 times per month, but on varying dates and times).
 - c. Documented on a Recap sheet, including the date, amounts counted and signature of the employee doing the counting.
 - d. Recorded in the Change Fund Log.
- 3) Management should ensure that every time the Change Fund is accessed, the required entry is made in the Change Fund Log.
 - a. A supervisor should periodically review the Log for compliance.
 - b. Employees should be reminded that it is mandatory to make an entry in the Log every time the Fund is accessed.

Corrective Action Plan #2

Audit Subject: Revenue Collections Cash Handling Procedures

February 19, 2008

Title:	Random Drawer Audits
Observations:	<ol style="list-style-type: none">1) No random cash drawer audits are performed at the EMSC.2) Cash drawer audits at City Hall are infrequent & undocumented.
Discussion:	<p>The "Random Drawer Audits" policy states: <i>"The Business Office Supervisor will perform random drawer audits during the year. If the audit is done during work hours, can be performed by the Supervisor without assistance. If after work hours another Supervisor is present."</i></p> <p>The policy does not state a minimum number or frequency of audits to be performed and does not require that the audits be documented. Drawer audits were not done at the EMSC, because there is no supervisor at that location.</p>
Risk:	Lack of management oversight increases the risk that errors, theft or fraud could occur without detection.
Recommendation:	The Random Drawer Audits policy should specify a minimum number and/or frequency of drawer audits to be performed at each Business Office and should require that they be documented.

Corrective Action Plan #3

Audit Subject: Revenue Collections Cash Handling Procedures

February 19, 2008

Title:	Cash Handling Training
Observation:	No formal cash handling training is provided to employees.
Discussion:	<p>Management Policy #210, Section VI.A.1.a states: <i>"Employees shall receive cash handling training at least every two-years."</i></p> <p>The Division has not provided new employees with formal cash handling training in the past, because they believe that on-the-job training is more effective. However, the Division has stated their intent to offer cash handling training in conjunction with mandatory credit card training early in 2008.</p>
Risk:	Employees who are not periodically reminded of the City's expectations with regard to cash handling may not continue to meet them.
Recommendation:	The Division should follow through with current plans to provide cash handling training this year.

Corrective Action Plan #4

Audit Subject: Revenue Collections Cash Handling Procedures

February 19, 2008

Title:	Physical Security
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Observations:

- 1) There are no Division-level procedures that explicitly address the need to physically safeguard all cash at all times.
- 2) Cash is counted in public view.
- 3) Cashiers and Cash are not adequately protected from customers.
- 4) Drop Box Procedures do not cover EMSC, do not require 2 people, & do not require varied pickup times.
- 5) There are no security cameras at the EMSC to mitigate the risks associated with no supervision and no electronic locks.

Discussion:

- 1) Management Policy #210, Section VI.C states:

"Physical Security

1. *Ensure that employees involved in the handling of cash and cash equivalents [checks, money orders, etc] are protected from physical harm.*

- a. *Employees involved in the movement of cash shall be alert.*
- b. *Movement of cash should involve at least two employees.*
- c. *Movement of cash should vary in time.*

2. *Ensure that cash is protected from loss. ..."*

We observed an isolated incident at the EMSC wherein cash was left temporarily unattended in an open vault. Since there is no formal Division-level policy or procedure that specifically identifies the need to safeguard cash, and the specific actions required for doing so, the staff may not take adequate precautions to protect cash from loss in the normal course of operations.

- 2) Cashiers close out their drawers and count their cash while still at their workstations, because they need to use their computers to enter their cash counts and reconcile to the cash report in Cashier For Windows. If the Business Office is still open when they need to close out, they place a sign up indicating they are closed and then try to be inconspicuous when counting their cash.
- 3) At the City Hall Business Office, cashiers conduct transactions and interact with customers over an open, slightly raised counter. There is also one cashier workstation that is lower, in order to comply with ADA regulations. At the EMSC, there is one standard height counter. There are no other barriers between customers and employees at either location. The slightly raised counter height at the City Hall workstations may offer limited protection, but there is no such protection at the ADA accessible workstation or at the EMSC. In addition, the ADA and EMSC workstations do not have standard cash drawers – they each have a standard small file cabinet with the top drawer used as a cash drawer. Employees who have used the ADA workstation and the EMSC workstations reported that they felt more vulnerable to theft and/or physical harm than at the higher counters at City Hall; and that the higher counters are only marginally better, because customers can still lean over the counter.
- 4) Currently, the Division's Drop Box Procedures:

- a. Require that the box be emptied at the same times each day:
 "The [City Hall] drop box is to be collected three times a day at 7:30 A.M., 2:00 P.M. and 4:00 P.M."
 - b. Do not require that the person emptying the drop box be accompanied by a 2nd person.
 - c. Do not specify that the contents of the drop box must be taken immediately to the secure area of the Business Office, to minimize the amount of time during which the payments and the employees are at risk.
 - d. Do not include procedures for the drop box at the EMSC; only the City Hall and Dobson Ranch drop boxes are mentioned.
- 5) At the EMSC Business Office, the doors to the office and the vault are controlled with push-button combination locks. There are no electronic (card-access) locks and so there is no way to determine who unlocked a door at a given time. In addition, there is no supervisor stationed at the EMSC and no security camera installed.

Risks:

- 1) Leaving cash unattended and/or unsecured increases the risk of loss due to theft.
- 2) Cash counted in public view increases vulnerability to robbery.
- 3) Inadequate physical barriers increase exposure and vulnerability to theft of cash and/or physical harm to employees.
- 4) A single employee transporting payments at the same time each day places the employee and the funds at increased risk of becoming the target of a robbery.
- 5) No supervision and no electronic tracking of movement in and out of the vault would make it difficult to determine the source of a discrepancy, should one arise.

Recommendations:

- 1) The Division should develop and adopt a formal policy that specifies that all cash, including the prior workday's deposit, must be physically safeguarded at all times. In order to ensure accountability, the policy should explicitly define what is meant by *"physically safeguarded."* For example, cash and cash equivalents should never be left unattended and unsecured.
- 2) Employees who must close out their cash drawer prior to the end of the business day should count their cash in an area out of public view.
- 3) The Division should improve the physical protection of both cash and employees from potential loss or other harm from customers. To that end, we recommend:
 - a. Install a Plexiglass or other type of physical barrier system above the counters.
 - b. If a barrier is not installed, the counters (except the ADA counter) should be raised to a more secure height and/or otherwise modified to increase physical security.
 - c. All workstations, including the EMSC and ADA workstations, should be equipped with standard locking cash drawers, strategically located to minimize the risk of theft.
- 4) The Drop Box Procedures should:
 - a. Require collection times to vary from day to day.
 - b. Require that the employee who empties the drop box be accompanied by a second employee (i.e. a Municipal Security Officer, CSR, supervisor, etc.).

- c. Specify that the contents of the drop box shall be taken immediately to the secure area of the Business Office.
 - d. Include procedures for all drop boxes at all locations.
- 5) The Division should install at least one security camera at the EMSC Business Office, aimed at the entrance to the vault, to provide a record of all traffic in or out of the vault.

Corrective Action Plan #5

Audit Subject: Revenue Collections Cash Handling Procedures

February 19, 2008

Title:	Voids/Refunds
Observations:	<ol style="list-style-type: none">1) Division procedures do not require that voids and most refunds be approved, as required by Management Policy #210.2) Employees are not required to enter a reason into the cashiering system when processing a refund or voiding a transaction.
Discussion:	<ol style="list-style-type: none">1) Management Policy #210, Section V states: <i>"...The Accounting Division is responsible for the approval of the individual department/division cash handling procedures and for any exceptions to this policy. Exceptions must be obtained in writing and retained by the requestor..."</i> According to Division procedures, only credit balance refunds over \$2,000 must be approved. This does not meet the requirement in MP210. While there may be compensating controls in place, such as independent reviews, the deviation from MP210 would still have to be approved in writing by the Accounting Division.2) Management Policy #210, Section VI.B.3 states: <i>"Voids and refunds should be appropriately documented and approved."</i> When a refund is processed, or a transaction is voided, the reason should be entered into the comment field of the cashiering system, to adequately document the transaction and to provide an additional compensating control in the absence of the approval requirement noted above.
Risks:	Allowing voids and refunds to be transacted without being subject to approval and without recording the reason for the void or refund, may enable errors or fraud to occur without detection.
Recommendations:	<ol style="list-style-type: none">1) The Division should obtain a written exception from the Accounting Division, with regard to the approval requirements for voids and refunds.2) A reason should be entered in the comment field every time a transaction is voided or a refund transaction is processed.3) Management should institute a formal process to ensure that voids and refunds are reviewed by a supervisor on a regular basis.



Financial Services Operations

March 5, 2008

To: Gary Ray, City Auditor

Through: Chris Brady, City Manager ^{CB}
Bryan Raines, Deputy City Manager ^{BR}

From: Tim Meyer, Business Licensing and Revenue Collections Administrator TM
Jenny Sheppard, Financial Services Operations Director ^{JS}

Subject: Department Response to Auditors Report for Revenue Collections Operations

The Financial Services Operations Department, Revenue Collections Operations, is appreciative with the thoroughness of this audit review, which resulted in the following recommendations from the City Auditors Office. Additionally, we are also pleased with the auditor's comments that recognize the conscientious and diligent efforts of the Revenue Collections staff to develop written policies and procedures that provide a high level of customer service to Mesa's customers and this organization.

Many of the audit findings were corrected immediately upon notification during the audit review. The remaining recommendations are in the process of being implemented and procedures updated. A department response to each of the Corrective Action Plans (CAP) follows.

CAP #1: Change Fund Controls

- 1. The change fund policy refers to (and is applied to) only a portion of the actual change fund as recorded in the City's General Ledger.**

Response: The main Business Office (City Hall) and the East Mesa Service Center (EMSC) each have a separate change fund allocation as reflected in the City's general ledger. The first allocation of the change fund is used to establish a starting fund for each cash drawer and the remainder of the fund is used to supply change to Business Office staff throughout the day. Our internal procedures recognized the two uses and two procedures were developed to account for the funds. A procedure was established to address the beginning change funds used in each cash drawer with a corresponding balancing procedure. Another procedure was written to account for and balance the change fund used by staff on a daily basis for change. Our

internal procedures have been updated to reflect one change fund policy and one balancing procedure for the full change fund allocated to each business office. As stated in the audit report, all funds were being balanced, just not as one fund. All cash drawers were, and continue to be, balanced nightly before each staff person goes home. The portion of the change fund that is used for supplying change to staff members was balanced at least once every two weeks. The new procedure still requires the individual cash drawers to be balanced daily and the entire change fund is now balanced at least twice each month.

- 2. The change fund policy does not require that only a supervisor perform change fund audits.**

Response: The supervisor will now audit the change fund randomly at least twice each month. Our internal policy has been changed and procedures are being updated to reflect the change.

- 3. At the EMSC (East Mesa Service Center) Business Office, audits of the change fund are performed by line-level staff and are not performed at the required frequency.**

Response: The supervisor will now audit the change fund randomly at least twice each month. Our internal policy has been changed and procedures are being updated to reflect the change.

- 4. Employees do not always make entries in the Change Fund Log when accessing the change fund.**

Response: The Business Office supervisor has reviewed this requirement with all staff. The supervisor will audit the Change Fund Log randomly, but no less than once per week, to ensure continued compliance.

CAP #2: Random Drawer Audits

- 1. No random cash drawer audits are performed at the EMSC.**

Response: Due to budget and workload constraints, there is not a supervisor located at the EMSC; the supervisor located at the City Hall business office is responsible for the Main Business Office and the East Mesa Business Office. Procedures were revised to require that the supervisor complete random audits at least twice per month and document the audits in a log each time one is completed.

2. Cash drawer audits at City Hall are infrequent and undocumented.

Response: Procedure has been revised to require the supervisor to complete a random audit at least twice every month and to document each audit in a log.

CAP #3: Cash Handling Training

1. No formal cash handling training is provided to employees.

Response: The supervisor has distributed and discussed proper cash handling processes with every staff member in the business offices during the past few years. We concur that staff should go through refresher training on a regular basis starting immediately. The supervisor will conduct additional cash handling training with all business office staff by 4-1-08. In addition, all staff will be required to read and sign management policy 210 with each PAF that is administered and the supervisor will go over proper cash handling procedures with each staff member at that time.

CAP #4: Physical Security

1. There are no division-level procedures that explicitly address the need to physically safeguard all cash at all times.

Response: Although our internal procedures did not reiterate the need to physically safeguard all cash at all times as stated in Management Policy 210, supervisory staff have gone over the need to safeguard City assets and proper procedures to safeguard cash at random times with all staff. Employees are held accountable for over/shorts errors. Excessive errors are documented on the employee's performance appraisal. These types of outages have been extremely low over the past several years largely due to the controls and follow-up by the Business Office Supervisor. Our internal procedures are updated to add this verbiage.

2. Cash is counted in public view.

Response: Our cashiering system requires each staff member to count their money and input the bill and coin count for each denomination. We do not currently have the space or the additional computers to send staff to a secured area to count down their cash drawers. Quotes have been received for an alternative option that will block the view to the customer while the staff is balancing their cash drawers.

3. Cashiers and cash are not adequately protected from customers.

Response: Quotes have been received and a vendor has been selected to install security glass at every business office window and credit services window to provide a barrier between the customers and the staff/money. Expected installation date is 4-1-08.

4. Drop box procedures do not cover EMSC, do not require 2 people, & do not require varied pick-up times.

Response: The procedures for EMSC have been changed to require two people when picking up the drop box payments. The pick-up time to empty the drop boxes has not varied in the past since we have a 4PM cut off time for payments to be processed the same day and the volume of payments has not warranted more pick-up times. Staff empties the drop boxes at varying times during the day and one time after 4PM. Procedures will be updated to have staff empty the drop boxes a couple times each day at varying times.

5. There are no security cameras at the EMSC to mitigate the risk associated with no supervision and no electronic locks.

Response: Bids have been received to install cameras at the EMSC. New cameras and a digital recording device should be installed by 5-1-08.

In addition, Municipal Security has been contacted to provide a quote to replace all punch locks with electronic locks. This upgrade will enhance security by requiring a secure card to enter staff work areas and the safe area. Once the quote is received, funds will be allocated from our existing budget if possible. If the cost cannot be absorbed with current funds, a BAR has been submitted.

CAP #5: Voids/Refunds

1. Division procedures do not require that voids and most refunds be approved as required by Management Policy 210.

Response: The cashiering system has a void detail report that will be now be printed daily and signed off by the supervisor. Any discrepancies or issues will be addressed immediately with the appropriate staff member unless an investigation is underway.

The vast majority of refunds are generated automatically by the system when an account is closed. Refund requirements are programmed with the constraint that no refund can be issued unless a credit balance is on the account. In addition, both a Credit Services Specialist and a Tax Audit & Collection's Supervisor review the refund to determine if the refund should be returned to the customer or if it should be used to satisfy another City account delinquency for the specific customer review all refunds. A supervisor will now sign off the refund report daily to ensure staff has reviewed the refunds before being released to the customer.

2. Employees are not required to enter a reason into the cashiering system when processing a refund or voiding a transaction.

Response: All manual refunds have a comment placed in the CIS system noting the reason for the refund prior to the refund being initiated. Manual refunds and refunds automatically generated by the system appear on the daily refund report and are reviewed by a specialist to verify the refund is justified and there are no other delinquent City accounts to apply the money too. The Revenue Collections supervisor and a Tax Audit & Collections supervisor will now complete a review of the report; the report will then be signed and dated. We will work with the Accounting Division to receive an exception to Management Policy 210 to address the refunds that are automatically generated by the CIS system.

Although the current cashiering system does not have the capability for the cashier to insert a comment for voids, a scheduled upgrade to the system (around July 2008) will have a required comment field for every void entered in the system. An exception from the accounting division will allow voids to be absent a comment until the upgrade is completed.